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CAPITAL LTD.

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ANNUAL REPORT

30TH SEPTEMBER, 1979



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CAPITAL LTD.

DIRECTORS

Douglas T. Bourke
*President and Chief Executive Officer,
Drummond, McCall Inc.
Lachine, Quebec*

John Clark
*Investment Manager,
Ivory & Sime Limited
Edinburgh, Scotland*

George A. Fierheller
*President and Chief Executive Officer,
Premier Cablevision Limited
Vancouver, British Columbia*

R. Alexander Hammond-Chambers
*Director,
Ivory & Sime Limited
Edinburgh, Scotland*

Ian E. Ivory
*Director,
Ivory & Sime Limited
Edinburgh, Scotland*

Neil B. Ivory
*President,
Pembroke Management Ltd.
Montreal, Quebec*

John S. Lane, C.F.A.
*Vice-President, Investments for Canada,
Sun Life Assurance
Company of Canada
Toronto, Ontario*

Clifford L. Larock, F.C.I.S.
*Chairman and Chief Executive Officer,
Pembroke Management Ltd.
Montreal, Quebec*

Douglas W. Parkin, M.A., F.I.A.
*Senior Vice-President for
Canada, Finance,
The Prudential Assurance
Company Limited
Montreal, Quebec*

Hugh R. Snyder
*President and Chief Executive Officer,
Brinco Limited
Toronto, Ontario*

OFFICERS

Clifford L. Larock, F.C.I.S.
President and Chief Executive Officer

Neil B. Ivory
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec
H3B 2W8

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver for
Preferred Shares)

REGISTERED OFFICE

First Canadian Place, 12th Floor,
100 King Street West,
Toronto, Ontario
M5X 1B3

ANNUAL MEETING

Friday, 25th January, 1980,
10:30 a.m., at 1018 Sun Life
Building, Montreal, Quebec

TO THE SHAREHOLDERS

REVIEW OF THE 1979 FISCAL YEAR

GBC Capital registered its fifth consecutive year of growth during the fiscal year ended 30th September, 1979, reflecting a very buoyant Canadian stock market and continued appreciation of the shares of small growth companies in the United States. Shareholders' Equity rose 24% to \$79.5 million and the net asset value per common share 25.5% to \$27.09, both record highs.

Business conditions were favourable during the year under review with corporate profits rising strongly, especially in Canada where benefits were received from a depreciated currency and higher commodity prices. Investors appeared to be much more influenced by the inherent values in equities and rising profits than by deteriorating international and financial conditions; thus surprisingly strong stock markets resulted.

Consolidated net income rose to a record \$1,302,946 for the fiscal year ended 30th September, 1979, the comparative figure for the previous year, after making an adjustment to exclude equity earnings in excess of revenue received from investments in associated companies, being \$881,969. After preferred dividends, net income per common share equalled \$0.367 compared with \$0.210 last year.

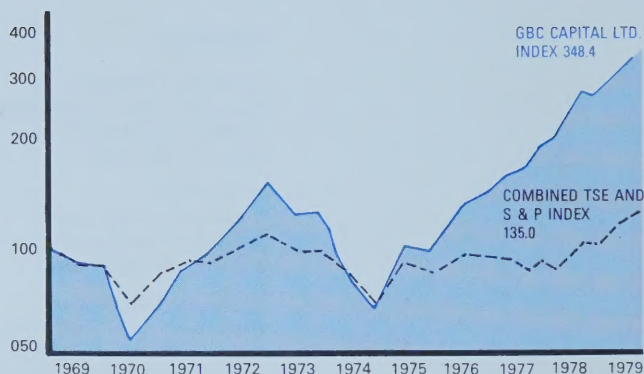
DIVIDENDS

A dividend of \$0.36 per common share has been declared payable 16th November, 1979, to shareholders of record at the close of business on 7th November, 1979. This dividend represents an increase of 20% over the dividend of \$0.30 per share paid a year ago. It is the objective of your Corporation to achieve earnings which will be sufficient to support continuing growth in annual dividend payments.

LONG TERM RECORD

During the period that GBC has been managed by Pembroke Management, starting at the beginning of 1969, the net asset value has climbed from \$7.77 to \$27.09, an average annual rate of gain of 12.3%. Since the bear market low of 1974, GBC's net asset value per common share has risen from \$5.08 to \$27.09, an average annual increase of 36.1%. The accompanying graph compares GBC's net asset value per share to an index composed equally of the Toronto Stock Exchange 300 Composite Stock Index and the Standard & Poor 500 Composite Stock Index for the eleven year period ended 30th September, 1979.

ELEVEN YEAR RELATIVE PERFORMANCE



SUBSIDIARIES

DOMINION-SCOTTISH INVESTMENTS LIMITED

This 99% owned subsidiary, which has a well diversified portfolio of attractive growth stocks both in the U.S. and Canada, enjoyed an excellent year, with Shareholders' Equity rising 36.1% to \$49.3 million. These results compare with a rise of 36.4% and 6.7% in the Toronto Stock Exchange 300 Composite and Standard & Poor 500 Composite stock indices, respectively, for the same interval.

SUTTON VENTURES LTD.

Sutton Ventures is 100% owned by GBC and invests principally in evolving high technology companies in the U.S. A significant portion of Sutton's assets is invested in Shared Medical Systems Corporation (more fully described below) which, despite a continuation of its strong growth in earnings had only a modest increase in share price. Sutton's overall results experienced a modest 10.2% appreciation during the year, partially reflecting the static price performance of SMS.

ASSOCIATED COMPANIES

It is no longer considered appropriate to account for the Corporation's investments in Associated Companies on the equity method and accordingly these holdings have been reclassified as portfolio investments as and from 1st October, 1978.

TOP FIVE HOLDINGS

A brief description of the five largest holdings in GBC and its subsidiaries follows:

SHARED MEDICAL SYSTEMS CORPORATION

(11.7% of total assets)

SMS provides financial and patient related information to hospitals in the U.S. by means of an on line computer centre located near Philadelphia. Since it was founded in 1968 it has shown rapid and consistent growth in the past five years has experienced well above average profitability.

For the first six months of fiscal 1979, SMS reported a 34% rise in revenues to \$38.7 million and a 25% rise in net earnings to \$5.1 million. Significant future growth is relatively assured both from new customers and additional services to existing customers with little adverse impact anticipated from the expected U.S. recession.

REVELSTOKE COMPANIES LTD.

(9.4% of total assets)

Revelstoke is a rapidly growing Alberta based retailing and building products company. It operates 107 stores located throughout Western Canada serving primarily "do-it-yourself" retail customers as well as professional builders. The company also operates 21 redi-mix concrete plants in the three Western Provinces and 4 lumber mills, 3 in Alberta and one in B.C.

Revelstoke's sales increased 8.8% in the first half of fiscal 1979 but severe weather and strikes adversely affected earnings, causing a decline from \$2.1 million to \$853,000 in net profits. Management expects that earnings for the full year will exceed those for 1978.

HEADWAY CORPORATION LIMITED

(4.9% of total assets)

Headway has made excellent progress in the past several years shifting from principally a residential home developer in Canada to a developer and owner of prime income producing properties in Canada and in the U.S. sunbelt. At the same time the company has divested itself of activities not related to real estate development. Excellent revenue, cash flow and earnings growth has been experienced in the past four years.

For the first six months of fiscal 1979, revenues rose 16.8% to \$45.0 million, cash flow 22.2% to \$1.6 million and net earnings 50.4% to \$778,000. Prospects for another year of record results appear promising.

TELEDYNE INC.

(3.1% of total assets)

Teledyne is a highly diversified company operating in the fields of industrial products, specialty metals, aviation, electronics, consumer goods, finance and insurance. It has 129 separate operating subsidiaries, the largest having sales of approximately \$300 million. The company is characterized by exceptionally high levels of profitability and very rapid earnings growth.

For the first nine months of fiscal 1979, revenues rose 12.3% to \$2.1 billion and net earnings 74.8% to \$280.3 million. Although the expected recession next year will undoubtedly affect profits, Teledyne is expected to show well above average longer term growth because of its exposure to many rapidly growing areas of the economy.

TOROMONT INDUSTRIES LTD.

(2.9% of total assets)

Toromont is a diversified manufacturing company operating in Canada and the U.S. in the fields of industrial refrigeration and engineered products, including forgings and steel laminations for small electrical motors. While the company has enjoyed consistent revenue growth over the past five years, net earnings (from continuing operations) declined in 1975 and 1976 and only last year recovered to the peak level of 1974.

Sales for the first six months of fiscal 1979 grew 18.2% to \$34.8 million and net earnings increased 7.8% to \$750,000. Results for the full year are expected to exceed those of 1978 with some further growth projected for 1980.

OUTLOOK

Recent actions by the U.S. Federal Reserve Board to lessen the availability of credit in order to slow inflation and protect the U.S. dollar from further depreciation against other currencies, are likely to aggravate the recession expected for 1980. Record high interest rates will cause corporate profits to decline more sharply than earlier anticipated.

Canada is likely to follow the U.S. into recession next year, not only because our exports to that country will be adversely affected, but also because the new Federal Government appears to be serious in its stated intent to reduce inflation by pursuing more conservative fiscal and monetary policies.

While we are not optimistic about economic and financial prospects for the next six months, we still believe common stocks are likely to provide the best investment returns in the decade of the 1980's. The sectors of greatest attraction continue to be energy and high technology companies, particularly those offering improved productivity. We shall continue to attempt to structure the portfolio to take advantage of these trends.

DIRECTORATE

Mr. Hugh R. Synder, President and Chief Executive Officer of Brinco Limited, was today elected by the shareholders as a director of the Corporation.

On behalf of the Board,

Clifford L. Larock,
President and Chief
Executive Officer

Montreal, Quebec,
30th October, 1979.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**
for the Year Ended
30th September, 1979

	1979	1978
INCOME FROM INVESTMENTS		
Securities in investment portfolios	\$2,069,659	\$1,004,497
Associated companies (share of earnings — Note 2) ...	—	2,139,615
Term deposits	213,516	253,597
	<u>2,283,175</u>	<u>3,397,709</u>
Management expenses	409,029	321,057
Other expenses	74,283	65,741
	<u>483,312</u>	<u>386,798</u>
	1,799,863	3,010,911
Income and withholding taxes	<u>344,389</u>	<u>277,342</u>
	1,455,474	2,733,569
Minority interest	<u>152,528</u>	<u>150,600</u>
NET INCOME	1,302,946	2,582,969
Retained earnings at beginning of year	<u>6,878,998</u>	<u>4,794,250</u>
	<u>8,181,944</u>	<u>7,377,219</u>
Dividends:		
5 1/4% preferred shares	315,000	315,000
Common shares	808,329	183,221
	<u>1,123,329</u>	<u>498,221</u>
RETAINED EARNINGS AT END OF YEAR	\$7,058,615	\$6,878,998
Net income per common share (Note 2)	<u>\$0.367</u>	<u>\$0.842</u>

AUDITORS' REPORT

To the Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. as at 30th September, 1979 and the consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at 30th September, 1979 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change relating to certain investments described in Note 2 with which we concur.

Montreal, Quebec,
30th October, 1979.

Touche Ross & Co.
Chartered Accountants.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**
as at 30th September, 1979

	<u>1979</u>	<u>1978</u>
INVESTMENTS		
Securities in investment portfolios at market value (Note 3)	\$78,892,157	\$53,729,830
Associated companies (Note 2)	—	13,084,000
	<u>78,892,157</u>	<u>66,813,830</u>
 CURRENT ASSETS		
Cash and term deposits	2,062,887	1,996,847
Due from brokers	2,372,561	—
Accrued income on investments	298,772	232,431
Income taxes recoverable	63,296	61,076
	<u>4,797,516</u>	<u>2,290,354</u>
 CURRENT LIABILITIES		
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	105,569	257,924
Income taxes payable	681,400	1,429,700
	<u>865,719</u>	<u>1,766,374</u>
 NET CURRENT ASSETS	<u>3,931,797</u>	<u>523,980</u>
	82,823,954	67,337,810
 MINORITY INTEREST	<u>3,371,920</u>	<u>3,273,700</u>
NET ASSETS (Note 6)	<u>\$79,452,034</u>	<u>\$64,064,110</u>
 REPRESENTED BY		
Capital stock (Note 4)	\$22,166,574	\$22,166,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	7,058,615	6,878,998
Surplus from changes in investments (Note 5)	17,081,564	10,506,190
Unrealized appreciation of investments (Note 3)	31,819,971	23,187,038
	<u>\$79,452,034</u>	<u>\$64,064,110</u>

Approved by the Board:

C. L. LAROCK, Director
NEIL B. IVORY, Director

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
30th September, 1979

Note 1. Accounting Policies and Presentation

(a) General

The corporation follows generally accepted accounting principles in the preparation of its financial statements and their application is consistent with that of the previous year except for the change relating to certain investments described in Note 2.

(b) Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (99.03% of the common shares owned) and Sutton Ventures Ltd. (100% owned).

(c) Foreign currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the year, any adjustment thereon being credited or charged, as the case may be, to "Surplus from changes in investments".

(d) Statement of changes in financial position

A statement of changes in financial position has been omitted since it is deemed inappropriate for an investment corporation. A statement of changes in net assets (Note 6) has been substituted therefor.

Note 2. Associated Companies

In prior years the corporation classified the undernoted holdings as investments in associated companies and accounted for them on the equity method:

	Book Value 30th September, 1978
Headway Corporation Limited, \$1,516,000 7½% convertible debentures and 418,500 common shares	\$ 4,290,000
Revelstoke Companies Ltd. 797,000 common shares	6,306,000
Toromont Industries Ltd. 611,000 common shares	2,488,000
	<u>\$13,084,000</u>

Since it is no longer considered appropriate to account for these investments on the equity method these holdings have been reclassified as portfolio investments. Had the same treatment been applied in 1978, net income for that year would have been \$881,969 or 21 cents per share.

Note 3. Securities in Investment Portfolios at Market Value

	<u>1979</u>	<u>1978</u>
GBC Capital Ltd. (Note 2)	\$23,220,510	\$ 7,986,000
Dominion-Scottish Investments Limited	46,368,916	36,816,706
Sutton Ventures Ltd.	9,302,731	8,927,124
	<u>78,892,157</u>	<u>53,729,830</u>
Securities at average cost	46,876,409	29,649,401
	<u>32,015,748</u>	<u>24,080,429</u>
Amount required to adjust average cost from a corporate basis to a consolidated basis	(195,777)	(893,391)
Balance included in shareholders' equity as unrealized appreciation of investments	<u>\$31,819,971</u>	<u>\$23,187,038</u>

No provision has been made for any liability for income taxes on capital gains which may arise on the future sale of investments. This is currently estimated to amount to \$9,119,000 based on the unrealized appreciation recorded by each of the consolidated corporations.

Note 4. Capital Stock

	<u>1979</u>	<u>1978</u>
5 ¹ / ₄ % cumulative redeemable preferred shares without nominal or par value		
Authorized and issued — 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value		
Authorized — not limited		
Issued — 2,694,429 shares	16,166,574	16,166,574
	<u>\$22,166,574</u>	<u>\$22,166,574</u>

The preferred shares are redeemable at the option of the corporation at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The corporation may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
30th September, 1979
(Continued)

Note 5. Surplus from Changes in Investments

	1979	1978
Balance at beginning of year	<u>\$10,506,190</u>	<u>\$ 5,995,087</u>
Gain on changes in investments (including loss on exchange \$18,132; 1978 — gain \$277,468)	<u>8,718,944</u>	<u>6,071,223</u>
Income taxes on changes in investments	<u>2,143,570</u>	<u>1,560,120</u>
	<u>6,575,374</u>	<u>4,511,103</u>
Balance at end of year	<u>\$17,081,564</u>	<u>\$10,506,190</u>

Note 6. Changes in Net Assets

	1979	1978
Net assets at beginning of year	<u>\$64,064,110</u>	<u>\$42,486,550</u>
Add:		
Net income for the year	<u>1,302,946</u>	<u>2,582,969</u>
Gain on changes in investments		
Portfolio securities at average cost		
at beginning of year	<u>29,649,401</u>	<u>20,627,540</u>
Reclassification of investments previously		
carried at equity (Note 2)	<u>13,084,000</u>	<u>—</u>
Purchases	<u>15,376,662</u>	<u>16,008,986</u>
	<u>58,110,063</u>	<u>36,636,526</u>
Portfolio securities at average cost		
at end of year	<u>46,876,409</u>	<u>29,649,401</u>
Cost of securities sold	<u>11,233,654</u>	<u>6,987,125</u>
Proceeds from securities sold	<u>19,970,730</u>	<u>12,780,880</u>
	<u>8,737,076</u>	<u>5,793,755</u>
(Loss) gain on exchange	<u>(18,132)</u>	<u>277,468</u>
Increase in unrealized appreciation		
of investments	<u>8,632,933</u>	<u>14,981,709</u>
	<u>18,654,823</u>	<u>23,635,901</u>
Deduct:		
Income taxes on changes in investments	<u>2,143,570</u>	<u>1,560,120</u>
Dividends		
5 1/4% Preferred shares	<u>315,000</u>	<u>315,000</u>
Common shares	<u>808,329</u>	<u>183,221</u>
	<u>3,266,899</u>	<u>2,058,341</u>
Increase for the year	<u>15,387,924</u>	<u>21,577,560</u>
Net assets at end of year	<u>\$79,452,034</u>	<u>\$64,064,110</u>

Note 7. Directors and Officers

Aggregate remuneration paid during the year to the corporation's nine (1978 — eight) directors was as follows:

Paying corporation	1979	1978
GBC Capital Ltd.	\$20,150	\$17,554
Dominion-Scottish Investments Limited	20,150	17,554
Sutton Ventures Ltd.	1,000	1,000
	<u>\$41,300</u>	<u>\$36,108</u>

No remuneration was paid to the corporation's five officers, two of whom are directors.

Note 8. Net Asset Value

The net asset value per common share of the corporation on the basis of market values is \$27.09 (1978 — \$21.58).

GBC CAPITAL LTD.
and subsidiary companies

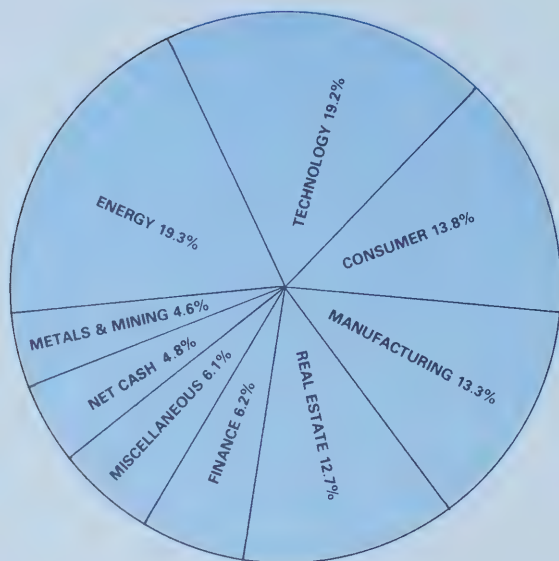
INVESTMENTS RANKED BY VALUE
as at 30th September, 1979

No.	Amount	Company	Market Value	Main Activity	Country of Incorporation
1	360,000	Shared Medical Systems	\$ 9,693,331	Hospital data processing	U.S.A.
2	797,000	Revelstoke Companies	7,770,750	Building supply retailer	Canada
3	\$1,516,000 388,500	Headway Corp. Debs. 1992 Headway Corporation	4,065,680	Real estate development	Canada
4	15,000	Teledyne Inc.	2,546,066	Electronic and engineered products	U.S.A.
5	611,000	Toromont Industries	2,444,000	Engineered products	Canada
6	30,000	Standard Oil, Ohio	2,406,968	Oil and gas	U.S.A.
7	100,000	Rouse Co.	2,176,125	Real estate development	U.S.A.
8	25,000	Murphy Oil Corp.	2,161,618	Oil and gas	U.S.A.
9	315,000	J. Harris & Sons	2,126,250	Steel distribution	Canada
10	49,000	Numac Oil & Gas	2,058,000	Oil and gas	Canada
Top Ten Investments			37,448,788	45.2% of Total Assets	
11	50,000	Phelps Dodge	1,755,408	Copper producer	U.S.A.
12	87,000	National Data Corp.	1,539,826	Computer services	U.S.A.
13	50,000	Lornex Mining	1,525,000	Copper producer	Canada
14	50,000	H & R Block	1,516,324	Income tax services	U.S.A.
15	60,000	National Medical Care	1,488,818	Medical services	U.S.A.
16	64,000	Dominion Dairies	1,440,000	Food products	Canada
17	115,000	Cousins Properties	1,368,057	Real estate development	U.S.A.
18	80,000	Wajax Limited	1,360,000	Heavy equipment distribution	Canada
19	30,000	McMoRan Oil & Gas	1,357,902	Oil and gas	U.S.A.
20	100,000	Scott's Restaurants	1,338,000	Restaurants	Canada
Top Twenty Investments			52,138,123	63.0% of Total Assets	
21	75,000	Carma Developers	1,218,750	Real estate development	Canada
22	26,000	Noble Affiliates	1,120,420	Oil and gas	U.S.A.
23	80,000	MICC Investments, cum Rts.	1,048,000	Mortgage insurance	Canada
24	60,000	Ivaco Ltd.	1,020,000	Wire products	Canada
25	12,000 48,000	Grafton Group Grafton Group, Class A	978,000	Apparel retailer	Canada
26	85,000	Midwestern Distribution	961,847	Commodity trucking	U.S.A.
27	20,000	Felmont Oil	940,086	Oil and gas	U.S.A.
28	20,000	Molex Inc.	928,480	Electronic connectors	U.S.A.
29	75,000	Emco Limited	909,750	Plumbing, heating products	Canada
30	15,000	Petrolane Inc.	905,268	Petroleum services	U.S.A.
Top Thirty Investments			62,168,724	75.1% of Total Assets	

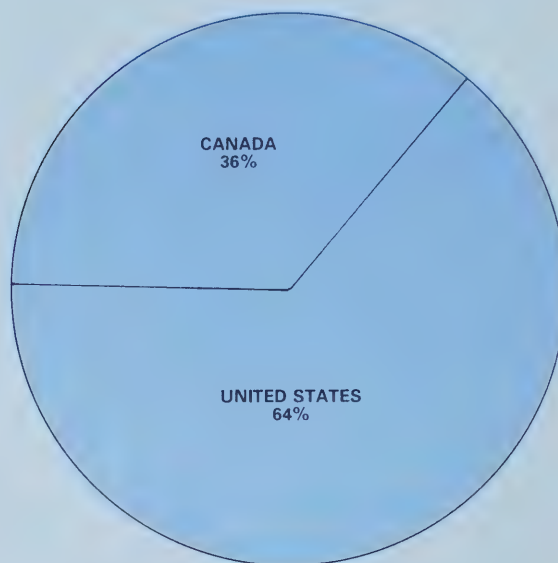
No.	Amount	Company	Market Value	Main Activity	Country of Incorporation
31	35,000	Moran Bros.	\$ 863,196	Contract drilling	U.S.A.
32	30,000	American Quasar	853,041	Oil and gas	U.S.A.
33	10,000	Helmerich & Payne	847,238	Contract drilling	U.S.A.
34	40,000	Storage Technology	806,849	Computer data storage	U.S.A.
35	20,000	Woods Petroleum	780,619	Oil and gas	U.S.A.
36	30,000	PHH Group	765,996	Management services	U.S.A.
37	13,000	Ernest W. Hahn	727,986	Real estate development	U.S.A.
38	30,000	First Mississippi	718,295	Fertilizer, oil and gas	U.S.A.
39	25,000	Petroleum Equipment Tools	678,371	Drilling equipment rental	U.S.A.
40	30,000	Old Republic Intl.	666,068	Insurance	U.S.A.
Top Forty Investments			69,876,383	84.4% of Total Assets	
41	12,000	Texas Commerce Bancshares	623,242	Bank holding	U.S.A.
42	30,000	Standard Motor Products	557,088	Motor parts	U.S.A.
43	21,000	Kulicke & Soffa	542,290	Electronic components	U.S.A.
44	20,000	Dynatech Corp.	504,861	Medical equipment	U.S.A.
45	20,000	Hecla Mining	502,075	Silver producer	U.S.A.
46	10,000	General Growth Properties	501,960	Real estate investments	U.S.A.
47	15,000	MTS Systems	498,420	Test equipment	U.S.A.
48	15,000	Valley National Bank Arizona	496,157	Banking	U.S.A.
49	10,000	Computervision	446,831	Computer graphics	U.S.A.
50	15,000	SPS Technologies	439,577	Industrial fasteners	U.S.A.
Top Fifty Investments			74,988,884	90.5% of Total Assets	
51	10,000	Pittway Corp.	426,521	Burglar and fire alarms	U.S.A.
52	30,000	Deltona Corp.	426,521	Land development	U.S.A.
53	18,000	Penn Engineering & Mfg.	370,812	Industrial fasteners	U.S.A.
54	10,000	Spectra-Physics	351,081	Laser products	U.S.A.
55	30,000	UniCapital Corp.	309,184	Petroleum services	U.S.A.
56	10,000	Metpath Inc.	306,166	Medical services	U.S.A.
57	15,000	Pacesetter Corp.	300,305	Insulation products	U.S.A.
58	10,000	Cullinane Corp.	291,659	Computer systems	U.S.A.
59	8,000	Evans & Sutherland	271,580	Computer graphics	U.S.A.
60	20,000	National Micronetics	226,317	Computer components	U.S.A.
Top Sixty Investments			78,269,030	94.5% of Total Assets	
61	5,000	Avantek, Inc.	219,818	Communication equipment	U.S.A.
62	10,000	Regency Electronics	214,711	Communication equipment	U.S.A.
63	10,000	Finnigan Corp.	188,598	Environmental instruments	U.S.A.
Total Value of Investments			\$78,892,157	95.2% of Total Assets	

GBC CAPITAL LTD.
and subsidiary companies

DISTRIBUTION OF ASSETS



GEOGRAPHICAL DISTRIBUTION OF ASSETS



FIVE-YEAR FINANCIAL SUMMARY

	1979	1978	1977(2)	1976	1975
Gross income (thousands)	\$ 2,283	\$ 3,398	\$ 1,453	\$ 2,521	\$ 1,890
Net income (thousands)	1,303	2,583	976	1,926	1,373
Per common share—					
Net income	0.37	0.84	0.27	0.61	0.40
Dividend paid	0.30	0.068	—	0.065	0.06
Total funds available (thousands)	82,824	67,338	45,638	39,356	32,870
Net assets (thousands)	79,452	64,064	42,487	36,237	29,650
Available for common shares (thousands)	72,994	57,606	36,028	29,779	23,192
Net asset value per common share:					
Market value basis	27.09	21.58	12.78	10.89	7.42
Equity accounting basis	N/A	21.38	13.37	11.19	8.71

NOTES:

(1) For fiscal years 1975 to 1978 inclusive, income from associated companies was accounted for on the equity method.

(2) Nine month period ended 30th September, 1977.

GBC CAPITAL LTD.**Consolidated Statement of
Changes in Net Assets (unaudited)**

Six months to
31st March
1979 1978

Net Assets at Beginning of Period	\$64,064,110	\$42,486,550
Net income for period	1,918,106	1,060,405
Gain on changes in investment portfolio:		
Securities at cost at beginning of period	(29,649,401)	(20,627,540)
Purchases	(6,169,931)	(5,569,076)
	(35,819,332)	(26,196,616)
Securities at cost at end of period	31,013,873	22,307,964
Cost of securities sold	(4,805,459)	(3,888,652)
Proceeds from securities sold	7,454,710	7,584,992
	2,649,251	3,696,340
(Loss) gain on exchange	(11,180)	199,477
Increase in unrealized appreciation	1,938,873	3,775,325
Income taxes on changes in investments	(641,280)	(995,025)
Dividends	(965,829)	(340,721)
Increase for period	4,887,941	7,395,801
Net Assets at End of Period	\$68,952,051	\$49,882,351
Net assets per common share —		
beginning of period	\$21.38	\$13.37
end of period	\$23.19	\$16.12

OFFICERS

Clifford L. Larock, F.C.I.S.
President and Chief Executive Officer

Neil B. Ivory
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

DIRECTORS

Douglas T. Bourke
John Clark
George A. Fierheller
R. Alexander Hammond-Chambers
Ian E. Ivory
Neil B. Ivory
John S. Lane, C.F.A.
Clifford L. Larock, F.C.I.S.
Douglas W. Parkin, M.A., F.I.A.

**MANAGERS AND LOCATION OF
EXECUTIVE OFFICES**

Pembroke Management Ltd.,
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec H3B 2W8

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co.,
1 Place Ville Marie,
Montreal, Quebec H3B 2A2

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company:
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver
for preferred shares)

REGISTERED OFFICE

12th Floor,
First Canadian Place,
Toronto, Ontario M5X 1B3

AR25



SECOND QUARTER REPORT

31st March, 1979

TO THE SHAREHOLDERS

Financial

Despite accelerating inflation, higher interest rates and unsettling international developments, prices on North American stock markets appreciated moderately during GBC Capital's second fiscal quarter which ended 31st March, 1979. In this period, GBC's net asset value per common share, valuing Associated Companies at equity rose 12.0% to \$23.19 and at market 12.1% to \$23.13, both figures being record highs.

For the first half of fiscal 1979, GBC's net asset value at equity increased 8.5% and at market 7.2%. In the same interval the Dow Jones Industrial Average declined 0.4% while the Toronto Stock Exchange Composite Index rose 14.1%.

Net income for the first six months of fiscal 1979 totalled \$1,918,000 equivalent to \$0.65 per common share after preferred dividend payments. This compares with net income of \$1,060,000 and earnings per share of \$0.34 in the same period last year.

Associated Companies

Headway Corporation Limited

The fiscal year, which ended on 30th November, 1978, was very satisfactory in a number of respects. From a financial point of view cash flow increased from \$4.78 million or \$1.59 per share to \$6.18 million or \$2.08 per share and shareholders' equity rose to \$15.79 million — an increase of 16% over the fiscal 1977 year end figure. In addition the company's policy of expanding its income property portfolio was continued at the same time that existing residential housing operations were being curtailed and steps were taken to dispose of the retail lumber division. Finally the company's management team was strengthened in a number of key operating areas.

Headway anticipates continued growth in fiscal 1979 notwithstanding the many uncertainties in the North American economy.

Revelstoke Companies Ltd.

For the year ended on 31st December, 1978 earnings increased to \$5,114,000 or \$1.25 per common share from \$4,386,000 or \$1.09 per common share earned in 1977. Dividend payments during 1978 amounted to \$0.20 per common share compared with \$0.13 per common share in the prior year.

The improvement in earnings was derived entirely from the Lumber Division which benefited from higher levels of lumber prices.

Earnings for 1978 were adversely affected by the Federal Government's Anti-Inflation Controls but these controls have now expired and will not be a factor in the current year.

Toromont Industries Ltd.

Net earnings from continuing operations for the year to 31st December, 1978 were \$1,808,000 or \$0.59 per share compared with \$1,572,000 or \$0.51 per share in 1977.

In 1978 special items increased total earnings to \$4,201,000 or \$1.37 per share, the major item being the gain on the sale of F. B. McFarren Ltd. of \$2,020,000 or \$0.66 per share. The McFarren company was sold to Canada Brick Co.

Outlook

In the United States housing starts are declining, industrial production growth is slowing and inventories are starting to climb. The sharp rise in the rate of inflation has eroded real wage gains suggesting that the consumer, already heavily burdened with debt, may soon cut back his spending.

The weak Canadian dollar and strong U.S. economy have resulted in stronger economic growth in this country than had been earlier anticipated. Corporate profits have risen in spectacular fashion under this set of favourable conditions. Any recession in the U.S. will have an adverse effect on Canada in due course and, with the Federal Government attempting to reduce its enormous fiscal deficit, the contraction could be sharp.

In view of the uncertain outlook and endless stream of bad news relating to economic, political and international issues, the persistent strength of North American stock markets is impressive. It appears to reflect conservative valuations and a favourable domestic and international supply/demand relationship for equities. Your managers expect increased volatility for the stock market in the months ahead but plan to maintain an essentially fully invested position with increasing exposure to the energy sector.

Respectfully submitted,

Clifford L. Larock,
President.

Montreal, Quebec,
9th April, 1979.

GBC CAPITAL LTD.

Consolidated Statement of Income and Retained Earnings (unaudited)

	Six months to 31st March	
	1979	1978
Income from Investments		
Portfolio securities	\$ 704,189	\$ 523,199
Associated companies (share of earnings)	1,556,000	806,720
Interest	106,589	118,002
	<u>2,366,778</u>	<u>1,447,921</u>
Expenses	233,530	184,915
Income and withholding taxes	138,677	126,957
Minority interest	76,465	75,644
	<u>448,672</u>	<u>387,516</u>
Net income for period	1,918,106	1,060,405
Retained earnings at beginning of period	6,878,998	4,794,250
	<u>8,797,104</u>	<u>5,854,655</u>
Dividends — preferred	157,500	157,500
— common	808,329	183,221
	<u>965,829</u>	<u>340,721</u>
Retained earnings at end of period	\$7,831,275	\$5,513,934
Per common share — net income dividend	\$ 0.65 \$ 0.30	\$ 0.34 \$0.068